

**Fulton Schools  
Middleton, Michigan**

**FINANCIAL STATEMENTS**

**June 30, 2008**

Fulton Schools  
Middleton, Michigan  
BOARD OF EDUCATION  
June 30, 2008

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Fulton Schools

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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Education  
Fulton Schools  
Middleton, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fulton Schools as of and for the year ended June 30, 2008, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Fulton Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Fulton Schools as of June 30, 2008, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2008, on our consideration of Fulton Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Fulton Schools' basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

October 3, 2008

**Management's Discussion and Analysis  
For Fiscal Year Ended June 30, 2008**

This section of Fulton Schools' annual report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2008. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Fulton Schools, a K-12 school district located in Gratiot County, Michigan, has presented its financial statements under the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34) with the enclosed financial statements. The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Fulton Schools' management's discussion and analysis of the financial results for the fiscal year ended June 30, 2008.

**Using this Annual Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Fulton Schools financially as a whole. The *District-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and longer-term view of the finances. The *Fund Financial Statements* provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds - the General Fund individually; the Special Revenue Funds, Debt Service Funds, and Capital Project Fund collectively as other nonmajor governmental funds. The remaining statement, (the statement of fiduciary net assets), presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

**District-Wide Financial Statements**

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities, which appear first in the basic financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. These statements are prepared to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the Statement of Net Assets - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets - as reported in the Statement of Activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The Statement of Net Assets and Statement of Activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, supporting services, community services, athletics, and food service. Property taxes, unrestricted State Aid (foundation allowance revenue), State and Federal grants, and other local dollars finance most of these activities.

The District-wide financial statements are full accrual basis statements. They report all the District's assets and liabilities, both short and long-term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Service Funds solely for the payment of long-term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and long-term obligations of the District are reported in the Statement of Net Assets of the District-wide financial statements.

**Fund Financial Statements**

The fund level financial statements are reported on the modified accrual basis. Only those assets that are "measurable" and "available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Debt Service Funds, the Special Revenue (School Service) Funds which are comprised of: Food Service and Athletics, Permanent Funds, and Capital Project Funds.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No capital assets are reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

**Summary of Net Assets:**

The following summarizes the net assets as of June 30, 2008.

**Condensed Statement of Net Assets  
as of June 30, 2008 and 2007**

	Governmental Activities <u>2008</u>	Governmental Activities <u>2007</u>
<b>Assets</b>		
Current Assets	\$ 3,356,300	\$ 3,708,512
Capital Assets	<u>2,211,296</u>	<u>2,043,314</u>
<b>Total Assets</b>	<b>5,676,596</b>	<b>5,121,826</b>
<b>Liabilities</b>		
Current Liabilities	913,115	817,119
Long-Term Liabilities	<u>524,024</u>	<u>431,871</u>
<b>Total Liabilities</b>	<b>1,437,139</b>	<b>1,248,990</b>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	1,794,506	1,794,412
Restricted	393,810	7,996
Unrestricted	<u>1,942,141</u>	<u>2,067,428</u>
<b>Total Net Assets</b>	<b><u>\$ 4,130,457</u></b>	<b><u>\$ 3,872,836</u></b>

**Analysis of Financial Position:**

As detailed above, the district shows a positive total net asset value of \$4,130,537 for the fiscal year ended June 30, 2008. This statement has been affected by the following factors:

- A significant number of the District's capital assets are older but fortunately the debt related to the assets is also declining enough annually to show positive net assets invested in capital assets net of related debt.
- The District is able to show positive net working capital of \$2,443,186 indicating that they can meet current obligations with current assets.

**Management's Discussion and Analysis  
For Fiscal Year Ended June 30, 2008**

**Results of Operations:**

For the fiscal year ended June 30, 2008 and 2007 the District-wide results of operations were:

**Condensed Statement of Activities  
Year Ended June 30, 2008 and 2007**

	Governmental Activities 2008	Governmental Activities 2007
<b>Revenues:</b>		
Program Revenues		
Charges for Service	\$ 315,721	\$ 243,502
Operating Grants	749,932	732,897
General Revenues		
Property Taxes	834,693	431,035
State School Aid - unrestricted	6,990,048	7,139,445
Investment Earnings	57,255	69,589
Special Education county allocation	343,453	321,763
Other	<u>73,740</u>	<u>39,985</u>
<b>Total Revenues</b>	<b>9,364,842</b>	<b>8,978,216</b>
<b>Functions/Program Expenses:</b>		
Instruction	5,427,529	5,122,236
Supporting services	2,507,284	2,616,531
Community services	217,344	205,420
Food service	344,228	292,690
Athletics	264,928	274,935
Other transactions	166,923	149,032
Interest on long-term debt	13,205	24,005
Unallocated depreciation	<u>165,780</u>	<u>206,144</u>
<b>Total Expenses</b>	<b><u>9,107,221</u></b>	<b><u>8,905,176</u></b>
<b>Increase in Net Assets</b>	<b><u>\$ 257,621</u></b>	<b><u>\$ 73,040</u></b>

**Analysis of Results of Operations:**

During fiscal year ended June 30, 2008, the District's net assets increased by \$257,621. Several factors, which helped cause the increase, are discussed in the following sections.

**A. Governmental Funds Operating Results**

The District's expenditures for governmental funds operations exceeded its revenues by \$228,360 for the fiscal year ended June 30, 2008, mainly due to the revenues over expenditures in the capital projects fund for sinking fund millages received and not expended at year end. Further discussion of the District's operating results is available in the section entitled "Results of 2007-2008 Operations" located on the following pages.



**B. Depreciation Expense**

The cost of capital assets is allocated over the useful lives of the assets as depreciation expense. During 2007-2008, district assets depreciated in the amount of \$165,780.

**C. Long-Term Debt Activities**

The District reduced its long-term bonded debt obligation during 2007-2008 by making principal payments amounting to \$29,112.

**Results of 2007-2008 Operations**

During fiscal year ended June 30, 2008, the District net assets increased by \$257,621. A few additional significant factors affecting net assets during the year are discussed below:

**A. General Fund Operations**

The General Fund is the main fund for the District and includes all the costs related to educating the students of the Fulton Schools such as: salaries and benefits for Teachers, Classroom Paraprofessionals, Administrators, Secretaries, Custodians, Maintenance staff, Librarians, Counselors, Bus Drivers and other miscellaneous positions; teaching supplies, employee training, utilities, building maintenance supplies and other.

The District's expenditures for General Fund operations exceeded revenues by \$133,871 for the fiscal year ended June 30, 2008. The General Fund as of June 30, 2008, has a fund balance of \$2,178,714 for the 2007-2008 fiscal year.

**B. Debt Service Fund Operations**

The Debt Service Funds consist of the 1992 Debt Fund. The Debt Service Funds are set up to collect intergovernmental appropriations and taxes in order to satisfy annual debt payments. At June 30, 2008, the Debt Service Funds had \$1,248 in fund equity and this bonded debt was recently paid off.

The District made principal payments from the General Fund on long-term debt obligations that reduced the amount of the District's long-term liabilities as follows:

	<u>Principal Balance June 30, 2007</u>	<u>Principal Additions</u>	<u>Principal Payments</u>	<u>Principal Balance June 30, 2008</u>
Durant Bonds	\$ 44,070	\$ -	\$ -	\$ 44,070
Installment Loans	<u>201,832</u>	<u>200,000</u>	<u>29,112</u>	<u>372,720</u>
Total long-term bond obligations	<u>\$ 245,902</u>	<u>\$ 200,000</u>	<u>\$ 29,112</u>	<u>\$ 416,790</u>

The district issued \$200,000 in an installment purchased agreement in the current year for capital improvements that will be paid for by sinking fund millage in the future.

The District also had \$262,044 in accumulated sick pay for the year ended June 30, 2008. For more details on long-term debt see Note F in the financial statements.

**C. School Service (Special Revenue) Funds**

The Fulton Schools also has school service funds that include the following: Food Service Fund and Athletics Fund.

The Food Service Fund is a fund that reports the food service program. In 2007-2008 the Food Service Fund had revenues of \$332,057 and expenditures of \$344,228. The Food Service Fund is supposed to be self-supporting and reimburses the General Fund for all identified overhead costs associated with its operation. The District contributed \$3,000 from the General Fund to aid in covering costs reported in this fund. The Food Service Fund had a fund balance of \$3,957.

The Athletics Fund includes all costs for high school and middle school athletic programs including the cost for coaches, officials, supplies, tournaments, and miscellaneous. In 2007-2008 the Athletics Fund had revenues of \$55,357 and expenditures of \$264,928. The Athletics Fund generated \$55,357 in revenue from gate receipts, passes, fees, donations, and other miscellaneous items. The Athletics Fund must be a balanced budget and the District contributed \$211,359 from the General Fund to balance the fund. The Athletics Fund had a fund balance of \$3,535.

**D. Net Investment in Capital Assets**

The District's net investment in capital assets increased by \$167,982 during the fiscal year. This can be summarized as follows:

	<u>Balance June 30, 2007</u>	<u>Net Change</u>	<u>Balance June 30, 2008</u>
Capital assets	\$ 7,861,339	\$ 333,762	\$ 8,195,101
Less: accumulated depreciation	( 5,818,025 )	( 165,780 )	( 5,983,805 )
Net investment in capital outlay	<u>\$ 2,043,314</u>	<u>\$ 167,982</u>	<u>\$ 2,211,296</u>

**IMPORTANT ECONOMIC FACTORS**

**A. State of Michigan Unrestricted Aid (Net State Foundation Grant)**

The State of Michigan aid, unrestricted, is determined with the following variables:

- State of Michigan State Aid Act per student foundation allowance.
- Student Enrollment - Blended at 75 percent of current year's fall count and 25 percent of prior year's winter count.
- The District's non-homestead property valuation.

**B. Per Student Foundation Allowance**

Annually, the State of Michigan establishes the per student foundation allowance. The Fulton Schools foundation allowance was \$7,204 per student for the 2007-2008 school year.

**C. Student Enrollment**

The District's State Aid Membership count for 2007-2008 was 1,030 students. The following summarizes the membership amounts over the past three years:

	<u>Membership</u>	<u>Change from Prior Year</u>
2007-2008	1,030	0
2006-2007	1,030	(9)
2005-2006	1,039	(4)

**D. Property Taxes levied for General Operations (General Fund Non-Homestead Taxes)**

The District levied 18 mills of property taxes for operations (General Fund) on Non-Homestead properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or five (5) percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value. The District's non-homestead property tax revenue for the 2007-2008 fiscal year was \$423,822.

**E. Property Taxes levied for Sinking Fund activities**

The District levied 3 mills of property taxes for sinking fund related activities in accordance with the millage extra request voted on and approved by District taxpayers. The millage is levied on all homestead and non homestead parcels within the District and generated approximately \$390,000 in 2007-2008.

**GENERAL FUND BUDGET & ACTUAL REVENUES & EXPENDITURES**

Listed below is an analysis of the original budget and final budget to the final actual.

**General Fund Revenues and Other Sources - Budgetary Comparison**

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variances</u>	
				<u>Actual &amp; Original Budget</u>	<u>Actual &amp; Final Budget</u>
2007-2008	\$ 7,969,213	\$ 8,542,270	\$ 8,597,629	7.9%	.6%
2006-2007	8,093,793	8,535,103	8,563,120	5.8%	.3%
2005-2006	8,101,643	8,150,103	8,205,585	1.3%	.7%

**General Fund Expenditures and Other Uses - Budgetary Comparison**

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variances</u>	
				<u>Actual &amp; Original Budget</u>	<u>Actual &amp; Final Budget</u>
2007-2008	\$ 8,353,542	\$ 8,791,225	\$ 8,731,500	(4.5)%	.7%
2006-2007	8,402,535	8,460,744	8,419,101	(.2)%	.5%
2005-2006	8,661,350	8,916,774	8,904,654	(2.8)%	.1%

**Original vs. Final Budget:**

The Uniform Budget Act of the State of Michigan requires that the Board of Education approve the original budget for the upcoming year prior to July 1, the start of the fiscal year.

As a matter of practice, Fulton Schools amends its budget periodically during the school year. The June 2008, budget amendment was the final budget for the fiscal year.

**General Fund Expenditures:**

The District's budget for expenditures changed as follows during the year:

Total Expenditures and other uses - Original Budget	\$ 8,353,542
Total Expenditures and other uses - Final Budget	<u>8,791,225</u>
Increase in Budget Expenditures and other uses	<u>\$ 437,683</u>

The District's actual expenditures and other uses were less than the final budget by \$59,725.

Some of the significant changes in the expenditure and other uses budget for the year include:

- Transportation fuel costs
- Van for transporting alternative education students
- Retirement and severance payment for several employees
- Michigan Works Program implemented within our Community Education program
- Asphalt work in the drive ways and roof work on H.S. and Administration Building

**Revenue and other sources Change from Original to Final Budget:**

Total Revenues and other sources - Original Budget	\$ 7,969,213
Total Revenues and other sources - Final Budget	<u>8,542,270</u>
Increase in Budget Revenues and other sources	\$ <u>573,057</u>

The District's final actual general fund revenues and other sources were greater than the final budget by \$55,359.

The final revenue and other sources budget reflected the following changes from the original budget.

- Higher FTE's and foundation grant then originally budgeted
- Michigan Works program revenue
- Received extra federal money for our Adult Basic Education program
- Received extra Adult Education money from the state at the end of the school year
- Extra revenue made from our school auction
- Interest income on investments higher than originally anticipated

**Additional Economic Factors and Next Year's Budgets and Rates**

Our elected officials and administration considered many factors when setting the School District's 2009 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2009 fiscal year is 25 percent and 75 percent of the February 2008 and September 2008 student counts, respectively. The 2009 fiscal year budget was adopted in June 2008, based on an estimate of students that will be enrolled in September 2008. Under State law, the School District cannot access additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2008-2009 school year, we anticipate that the fall student count may be slightly lower than the estimates used in creating the 2009 fiscal year budget. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations.

Since the School District's revenue is heavily dependent on State Funding and the status of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Office, Fulton Schools, 8060 Ely Highway, Middleton, Michigan 48856.

## **BASIC FINANCIAL STATEMENTS**

Fulton Schools

STATEMENT OF NET ASSETS

June 30, 2008

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Current assets	
Cash and cash equivalents	\$ 1,887,183
Investments	3,572
Accounts receivable	1,037
Interest receivable	673
Due from other governmental units	1,458,264
Inventories	<u>7,571</u>
Total current assets	3,356,300
Noncurrent assets	
Capital assets not being depreciated	204,225
Capital assets, net of accumulated depreciation	<u>2,007,071</u>
Total noncurrent assets	<u>2,211,296</u>
<b>TOTAL ASSETS</b>	<b>5,567,596</b>
<b>LIABILITIES</b>	
Current liabilities	
Accounts payable	61,669
Accrued payroll	441,276
Other accrued liabilities	243,670
Accrued interest payable	2,945
Current portion of compensated absences	78,613
Current portion of long-term debt	<u>84,942</u>
Total current liabilities	913,115
Noncurrent liabilities	
Accrued interest payable	8,745
Noncurrent portion of compensated absences	183,431
Noncurrent portion of long-term debt	<u>331,848</u>
Total noncurrent liabilities	<u>524,024</u>
<b>TOTAL LIABILITIES</b>	<b><u>1,437,139</u></b>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	1,794,506
Restricted for sinking fund activities	393,810
Unrestricted	<u>1,942,141</u>
<b>TOTAL NET ASSETS</b>	<b><u>\$ 4,130,457</u></b>

See accompanying notes to financial statements.

Fulton Schools

STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Assets Governmental Activities
		Charges for Services	Operating Grants	
Governmental activities				
Instruction	\$ 5,427,529	\$ 33,784	\$ 552,652	\$ (4,841,093)
Supporting services	2,507,284	-	24,177	(2,483,107)
Community services	217,344	67,737	-	(149,607)
Food Service	344,228	158,869	173,103	(12,256)
Athletics	264,928	55,331	-	(209,597)
Other transactions	166,923	-	-	(166,923)
Interest and fees on long-term debt	13,205	-	-	(13,205)
Unallocated depreciation	165,780	-	-	(165,780)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>\$ 9,107,221</b>	<b>\$ 315,721</b>	<b>\$ 749,932</b>	<b>(8,041,568)</b>
General Revenues				
Property taxes				834,693
State school aid - unrestricted				6,990,048
Investment earnings				57,255
Special education county allocation				343,453
Miscellaneous				73,740
<b>TOTAL GENERAL REVENUES</b>				<b>8,299,189</b>
<b>CHANGE IN NET ASSETS</b>				<b>257,621</b>
Net assets, beginning of year				3,872,836
Net assets, end of year				<u>\$ 4,130,457</u>

See accompanying notes to financial statements.

Fulton Schools

GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2008

	General	Capital Project Fund	Nonmajor Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,441,617	\$ 411,834	\$ 33,732
Investments	-	-	3,572
Accounts receivable	1,037	-	-
Interest receivable	673	-	-
Due from other funds	-	-	1,732
Due from other governmental units	1,451,045	-	5,219
Inventories	4,384	-	3,187
<b>TOTAL ASSETS</b>	<b>\$ 2,898,756</b>	<b>\$ 411,834</b>	<b>\$ 47,442</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 33,364	\$ 18,024	\$ 10,281
Accrued payroll	441,276	-	-
Other accrued liabilities	243,670	-	-
Due to other funds	1,732	-	-
<b>TOTAL LIABILITIES</b>	<b>720,042</b>	<b>18,024</b>	<b>10,281</b>
<b>FUND BALANCES</b>			
Reserved for			
Inventories	4,384	-	3,187
Debt service	-	-	1,248
Scholarships	-	-	28,421
Unreserved			
Undesignated, reported in:			
General fund	2,174,330	-	-
Special revenue funds	-	-	4,305
Capital projects fund	-	393,810	-
<b>TOTAL FUND BALANCES</b>	<b>2,178,714</b>	<b>393,810</b>	<b>37,161</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 2,898,756</b>	<b>\$ 411,834</b>	<b>\$ 47,442</b>

See accompanying notes to financial statements.



Total  
Governmental  
Funds

---

\$	1,887,183
	3,572
	1,037
	673
	1,732
	1,456,264
	7,571
	<hr/>
\$	3,358,032
	<hr/>

\$	61,669
	441,276
	243,670
	1,732
	<hr/>
	748,347

7,571
1,248
28,421

2,174,330
4,305
393,810
<hr/>

2,609,685
<hr/>

\$	3,358,032
	<hr/>

Fulton Schools

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO  
THE STATEMENT OF NET ASSETS

June 30, 2008

**Total fund balance - governmental funds** **\$ 2,609,685**

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources  
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 8,195,101	
Accumulated depreciation is	<u>(5,983,805)</u>	
		2,211,296

Long-term liabilities are not due and payable in the current period  
and therefore are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of:

Bonds and loans payable	416,790	
Accrued interest payable	11,690	
Compensated absences	<u>262,044</u>	
		<u>(690,524)</u>

**Net assets of governmental activities** **\$ 4,130,457**

See accompanying notes to financial statements.

Fulton Schools

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS

Year Ended June 30, 2008

	General	Capital Project Fund	Nonmajor Governmental Funds
<b>REVENUES</b>			
Local sources	\$ 620,846	\$ 395,087	\$ 217,547
State sources	7,315,592	-	16,722
Federal sources	299,214	-	156,381
<b>TOTAL REVENUES</b>	<b>8,235,652</b>	<b>395,087</b>	<b>390,650</b>
<b>EXPENDITURES</b>			
Current			
Instruction	5,487,763	-	-
Supporting services	2,604,765	-	-
Community services	217,344	-	-
Food service	-	-	344,228
Athletics	-	-	264,928
Miscellaneous	-	-	341
Capital outlay	-	210,024	-
Debt service	40,166	-	-
<b>TOTAL EXPENDITURES</b>	<b>8,350,038</b>	<b>210,024</b>	<b>609,497</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(114,386)</b>	<b>185,063</b>	<b>(218,847)</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
County special education allocation	343,453	-	-
Loan proceeds	-	200,000	-
Payments to other districts	(166,923)	-	-
Transfers from other funds	18,524	-	214,539
Transfers to other funds	(214,539)	-	(18,524)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(19,485)</b>	<b>200,000</b>	<b>196,015</b>
<b>CHANGE IN FUND BALANCES</b>	<b>(133,871)</b>	<b>385,063</b>	<b>(22,832)</b>
Fund balances, beginning of year	2,312,585	8,747	59,993
Fund balances, end of year	<u>\$ 2,178,714</u>	<u>\$ 393,810</u>	<u>\$ 37,161</u>

See accompanying notes to financial statements.

Totals  
Governmental  
Funds

---

\$ 1,233,480  
7,332,314  
455,595

---

9,021,389

5,487,763  
2,604,765  
217,344  
344,228  
264,928  
341  
210,024  
40,166

---

9,169,559

---

(148,170)

343,453  
200,000  
(166,923)  
233,063  
(233,063)

---

376,530

---

228,360

2,381,325

---

\$ 2,609,685

Fulton Schools

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

**Net change in fund balances - total governmental funds** **\$ 228,360**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 333,762	
Depreciation expense	<u>(165,780)</u>	
 Excess of capital outlay over depreciation expense		 167,982

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Loan proceeds	(200,000)	
Long-term debt principal retirements	<u>29,112</u>	
		(170,888)

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Increase in accrued interest payable	(2,151)	
Decrease in compensated absences	<u>34,318</u>	
		<u>32,167</u>

**Change in net assets of governmental activities** **\$ 257,621**

See accompanying notes to financial statements.

Fulton Schools

Fiduciary Fund

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2008

	Agency Fund
ASSETS	
Cash	<u>\$        64,774</u>
LIABILITIES	
Due to	
Elementary	\$        22,953
Middle School/High School	32,680
Athletic groups	<u>9,141</u>
TOTAL LIABILITIES	<u>\$        64,774</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of Fulton Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's more significant accounting policies are described below.

**1. Reporting Entity**

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity (as amended by GASB Statement No. 39)*; and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of Fulton Schools (primary government). The District has no activities that would be classified as component units.

Based upon the application of these criteria, the financial statements of the District contain all the funds controlled by the District.

**2. Basis of Presentation**

**DISTRICT-WIDE FINANCIAL STATEMENTS**

The statement of net assets and the statement of activities (the district-wide statements) present information for the district as a whole. All non-fiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the district-wide statements). Interfund activity has been eliminated in the preparation of the district-wide financial statements.

The statement of activities presents the direct functional expenses of the District and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State aid payments and shows how governmental functions are either self-financing or supported by the general revenues of the District.

**FUND FINANCIAL STATEMENTS**

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. The District utilizes governmental and fiduciary funds.

The governmental fund financial statements present the District's individual major fund and aggregated nonmajor funds. A separate column is shown for the major fund on the balance sheet and statement of revenues, expenditures, and changes in fund balances. Nonmajor funds are combined and shown in a single column. The fiduciary funds are reported by type.

The major funds of the District are:

- a. **General Fund** - The General Fund is used to account for money or other resources provided to the District to support the educational programs and general operations of the District.
- b. **Capital Projects fund** - This fund is used to account for a sinking fund tax levy for the purposes of purchasing and constructing capital assets for district use.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**3. Measurement Focus**

The district-wide and fiduciary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the district-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

There is no measurement focus for the fiduciary agency fund since assets equal liabilities.

**4. Basis of Accounting**

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The district-wide and fiduciary fund financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Property tax revenue is recognized in the fiscal year for which it is levied. Revenues for grants, entitlements, and donations are recognized when all eligibility requirements imposed by the provider have been met. Deferred revenue is recorded when resources are received by the District before it has legal claim to them, such as when grant monies are received prior to the incurrence of qualified expenditures.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues susceptible to accrual include property taxes, state and federal aid, and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are recorded when due.

The District reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Resources are considered available if they are collected during the current fiscal year or soon enough afterward to be used in payment of current year liabilities - defined as expected to be received within sixty days of year-end. Deferred revenues also arise when the District receives resources before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

**5. Budgets and Budgetary Accounting**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all required governmental fund types.

The District does not maintain a formalized encumbrance accounting system. All annual appropriations lapse at fiscal year end.



NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**5. Budgets and Budgetary Accounting - continued**

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means for financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amounts appropriated.
- d. The budgets are legally adopted to the functional level; however, they are maintained at the object level for control purposes. Any revisions that alter the total expenditures at the functional level must be approved by the School Board.
- e. The Superintendent is authorized to transfer budgeted amounts for purposes of meeting emergency needs of the District; however, these transfers must be approved subsequently by the Board of Education.
- f. Formal budgetary integration is employed as a management control device during the year for all governmental fund types.
- g. The budget, as presented, has been amended in a legally permissible manner. Four (4) supplemental appropriations were made during the year with the last approved June 23, 2008.

**6. Cash, Cash Equivalents, and Investments**

Cash and cash equivalents consist of checking and savings accounts and pooled investment funds. Cash equivalents are recorded at market value. Investments consist of certificates of deposit with an original maturity of greater than 90 days. Investments are recorded at market value.

**7. Short-term Interfund Receivables/Payables**

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" and "due to other funds" on the governmental funds balance sheet.

**8. Inventories**

Inventories are stated at cost on a first in/first out basis. The Food Services Fund inventory consists of food and paper goods. Inventory amounts are equally offset by a fund balance reserve in the fund financial statements, which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

**9. Due From Other Governmental Units**

Due from other governmental units consists of various amounts owed to the District for grant programs and State Aid payments. The State of Michigan's funding stream of State Aid payments results in the final two (2) payments for the fiscal year ended June 30, 2008 to be paid in July and August 2008. The total amount of \$1,456,264 due from other governmental units consists of \$1,359,292 and \$96,972 related to State Aid and grant and local programs, respectively.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED****10. Capital Assets**

Capital assets include land, buildings, equipment, and vehicles and are recorded (net of accumulated depreciation, if applicable) in the district-wide financial statements. Capital assets are those with an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the district-wide financial statements. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and additions	5 - 20 years
Equipment and furniture	5 - 20 years
Vehicles	8 years
Other capital equipment	5 - 20 years

The District has no assets that would be classified as infrastructure assets.

**11. Compensated Absences**

Based on the requirements of GASB Statement No. 16, *Accounting for Compensated Absences*, the District has recorded all liabilities associated with compensated absences. Accumulated vested severance amounts and nonvested severance amounts that are probable to vest and be paid at termination are considered payable from future resources and are recorded along with the related payroll taxes as a long-term liability in the district-wide financial statements.

**12. Accrued Interest Payable**

Accrued interest is presented for the long-term obligations in the district-wide statements in two components: the portion of interest payable that is due within one year is reported as a current liability, the remaining amount that is not due within one year has been reported as a noncurrent liability. The interest payable on the Durant Resolution bonds that were due May 15, 2003, 2004, 2005, 2007 and 2008 is shown as a noncurrent liability due to the State of Michigan deferring these payments until May 15, 2011.

**13. Long-term Obligations**

Long-term debt is recognized as a liability in the district-wide statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in a Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

**14. Property Taxes**

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. School District property tax revenues are recognized when levied to the extent that they result in current revenue (collected as of year-end). Amounts received subsequent to June 30 are recognized as revenue when collected.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**14. Property Taxes - continued**

The District levies taxes of \$18.00 per \$1,000 of taxable valuation on nonhomestead property for general governmental services and \$3.00 per \$1,000 of taxable valuation on the total applicable taxable valuation of all property within the District to fund the sinking fund. The District is also permitted to levy additional amounts for enhancement and/or debt service if voter approval is obtained.

**15. State Foundation Revenue**

Beginning with the fiscal year ended June 30, 1995, the State of Michigan adopted a foundation grant approach, which provides for a specific annual amount of revenue per student based on a statewide formula. Prior to the fiscal year ended June 30, 1995 the State utilized a district power equalizing approach. The foundation is funded from State and local sources. Revenues from State sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of State funds to school districts based on information supplied by the districts. For the year ended June 30, 2008, the foundation allowance was based on the average of pupil membership counts taken in September 2007 and February 2007. The average calculation was weighted 75% for the September 2007 count and 25% for the February 2007 count.

The State portion of the foundation is provided primarily by a State education property tax millage of 6 mills and an allocated portion of State sales and other taxes. The local portion of the foundation is funded primarily by nonhomestead property taxes, which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period (currently the fiscal year) and is funded through nine (9) payments made during the fiscal year and two (2) payments made subsequent to year-end. The local revenue is recognized as outlined above under Property Taxes.

**16. State Categorical Revenue**

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received that are not expended by the close of the fiscal year are reported as deferred revenue, when they are present.

**17. Interfund Transactions**

Interfund transactions are reported as either loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers on the governmental fund financial statements. Transfers are netted as part of the reconciliation to the district-wide financial statements.

**18. Federal Programs**

Federal programs are accounted for in the General Fund and specific Special Revenue Funds.

**19. Comparative Data**

Comparative data for the prior year has not been presented in the basic financial statements since their inclusion would make the statements unduly complex and difficult to read.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS**

In accordance with Michigan Public Act 451 of 1976, Section 1223(1), as amended, the District is authorized to invest its surplus funds in the following types of investments:

1. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
2. Certificates of deposit issued by a State or National bank, savings accounts of a State or Federal savings and loan association, or certificates of deposit or share certificates of a State or Federal credit union organized and authorized to operate in this State.
3. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
4. Securities issued or guaranteed by agencies or instrumentalities of the United States government.
5. United States government or Federal agency obligation repurchase agreements.
6. Bankers' acceptances issued by a bank that is a member of the Federal Depository Insurance Corporation.
7. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a School District.
8. Investment pools, as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a School District.

Michigan Public Acts authorize school districts in Michigan to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations. Deposits of the District are at federally insured banks and credit unions in the State of Michigan in the name of the School District.

Federal Deposit Insurance Corporation (FDIC), Federal Savings and Loan Insurance Corporation (FSLIC), and the National Credit Union Administration regulations provide that deposits of governmental units are to be separately insured for savings deposits and demand deposits up to \$100,000 each. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan School Code Section 1223 allows that security in the form of collateral, surety bond, or another form may be taken for the deposits or investments of a school district in a bank, savings and loan association, or credit union.

**Deposits**

There is custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it.

As of June 30, 2008, the carrying amount of the District's deposits was \$708,248 and the bank balance was \$833,277, of which \$103,572 was covered by Federal depository insurance. The balance of \$729,705 was uninsured and uncollateralized.

**Investments**

As of June 30, 2008, the District had the following investments:

<u>INVESTMENT TYPE</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Weighted Average Maturity</u>
Uncategorized pooled investment funds			
MLAFP - Cash Management Funds	\$ 1,247,281	\$ 1,247,281	N/A

## NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED****Credit risk**

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of June 30, 2008, the District's investment in the uncategorized pooled investment (with Michigan Liquid Asset Fund Plus (MLAFP)) was rated AAA by Standard and Poor's.

**Interest rate risk**

The District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

**Concentration of credit risk**

The District will minimize concentration of credit risk, which is the risk of loss attributed to magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**Custodial credit risk**

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities authorized by the Board and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business in accordance with Board approved policy.

As of June 30, 2008, the cash and cash equivalents and investments referred to above have been reported in either the cash and cash equivalents or investment captions in the financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and cash equivalents	\$ 1,887,183	\$ 64,774	\$ 1,951,957
Investments	<u>3,572</u>	<u>-</u>	<u>3,572</u>
	<u>\$ 1,890,755</u>	<u>\$ 64,774</u>	<u>\$ 1,955,529</u>

Due to significantly higher cash flow at certain periods during the year, the amount the District held as cash, cash equivalents, and investments increased significantly. As a result, the amount of uninsured and uncollateralized cash, cash equivalents, and investments were substantially higher at these peak periods than at year-end.

**NOTE C: INTERFUND RECEIVABLES AND PAYABLES**

The amount of interfund receivables and payables at June 30, 2008, are as follows:

Due to nonmajor governmental funds from:	
General fund	\$ <u>1,732</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

Fulton Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE D: INTERFUND TRANSFERS**

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Transfers from General Fund to:	
Nonmajor governmental funds	<u>\$ 214,539</u>
Transfers from nonmajor governmental funds to:	
General Fund	<u>\$ 18,524</u>

**NOTE E: CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2008, was as follows:

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2008</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 12,225	\$ -	\$ -	\$ 12,225
Construction in Process	<u>-</u>	<u>192,000</u>	<u>-</u>	<u>192,000</u>
Subtotal assets not being depreciated	12,225	192,000	-0-	204,225
Capital assets being depreciated				
Buildings	4,237,972	-	-	4,237,972
Equipment and furniture	2,405,905	43,940	-	2,449,845
Vehicles	1,008,712	97,822	-	1,106,534
Other capital equipment	<u>196,525</u>	<u>-</u>	<u>-</u>	<u>196,525</u>
Subtotal of capital assets being depreciated	7,849,114	141,762	-0-	7,990,876
Less accumulated depreciation for:				
Buildings	( 2,644,650 )	( 70,013 )	-	( 2,714,663 )
Equipment and furniture	( 2,097,538 )	( 50,476 )	-	( 2,148,014 )
Vehicles	( 884,960 )	( 43,956 )	-	( 928,916 )
Other capital equipment	<u>( 190,877 )</u>	<u>( 1,335 )</u>	<u>-</u>	<u>( 192,212 )</u>
Subtotal	<u>( 5,818,025 )</u>	<u>( 165,780 )</u>	<u>-0-</u>	<u>( 5,983,805 )</u>
Net capital assets being depreciated	<u>2,031,089</u>	<u>( 24,018 )</u>	<u>-0-</u>	<u>2,007,071</u>
Capital assets, net	<u>\$ 2,043,314</u>	<u>\$ 167,982</u>	<u>\$ -0-</u>	<u>\$ 2,211,296</u>

Depreciation expense was not allocated to governmental functions. It appears on the statement of activities as "unallocated".

Fulton Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE F: LONG-TERM DEBT**

The following is a summary of changes in long-term debt obligations of the District for the year ended June 30, 2008.

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008	Amounts Due Within One Year
1998 Durant Resolution Bonds	\$ 44,070	\$ -	\$ -	\$ 44,070	\$ 4,154
Installment Loans	201,832	200,000	29,112	372,720	80,788
Accumulated compensated absences	296,362	213,024	247,342	262,044	78,613
	<u>\$ 542,264</u>	<u>\$ 413,054</u>	<u>\$ 276,484</u>	<u>\$ 678,834</u>	<u>\$ 163,555</u>

Significant details regarding outstanding long-term debt (including current portions) are presented below:

Resolution Bonds

\$74,637 1998 Durant Resolution Bonds dated November 15, 1998, due in annual installments from \$4,154 to \$25,787, with interest of 4.7615353 percent, payable annually. The annual debt service payments related to these bonds is paid through an annual appropriation from the State of Michigan. The State of Michigan has suspended payment until May 15, 2009.

\$ 44,070

Installment Loans

\$34,375 Installment Purchase Agreement dated July 16, 1998, due in semi-annual installments ranging from \$1,287 to \$1,655 through May 15, 2013 with interest at 5.68 percent, payable semi-annually.

\$ 14,641

\$236,268 Installment Purchase Agreement dated July 16, 1998 due in semi-annual installments ranging from \$8,843 to \$11,378 through May 15, 2013, with interest at 5.68 percent, payable semi-annually.

100,633

\$24,275 Installment Purchase Agreement dated December 9, 1998 due in semi-annual installments ranging from \$934 to \$1,201 through May 15, 2013, with interest at 5.68 percent, payable semi-annually.

10,624

\$17,380 Installment Purchase Agreement dated December 9, 1998 due in semi-annual installments ranging from \$669 to \$860 through May 15, 2013, with interest at 5.68 percent, payable semi-annually.

7,607

\$58,600 Installment Purchase Agreement dated December 9, 1998 due in semi-annual installments ranging from \$2,254 to \$2,900 through May 15, 2013, with interest at 5.68 percent, payable semi-annually.

25,647

\$31,000 Installment Purchase Agreement dated December 9, 1998 due in semi-annual installments ranging from \$1,192 to \$1,534 through May 15, 2013, with interest at 5.68 percent, payable semi-annually.

13,568

\$200,000 Installment Purchase Agreement dated May 26, 2008 due in annual installments of 50,000 through May 1, 2012, with interest at 3.79 percent, payable annually.

200,000

\$ 372,720

Fulton Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE F: LONG-TERM DEBT - CONTINUED**

**Annual Requirements for Bonded Debt and Installment Loans**

The annual requirements to pay the debt principal and interest outstanding for the Long-Term Debt are as follows:

Year Ending June 30,	<u>Durant Resolution Bonds</u>		<u>Installment Loans</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 4,154	\$ 1,088	\$ 80,788	\$ 16,440
2010	4,351	890	82,561	13,291
2011	25,787	9,428	84,436	9,520
2012	4,775	466	86,420	5,642
2013	5,003	239	38,515	1,649
	<u>\$ 44,070</u>	<u>\$ 2,111</u>	<u>\$ 372,720</u>	<u>\$ 46,542</u>

The Durant Resolution Bonds referred to above are bonds whose future debt service payments by the District are contingent on an annual State of Michigan appropriation. This is the only revenue source for making the annual debt service payments on these bonds. If the legislature of the State of Michigan fails to appropriate the funds, in any particular year, the District is under no obligation for payment of that year's debt obligation. The State of Michigan has suspended payments on these bonds until May 15, 2009. It appears this suspension will have no financial impact on Fulton Schools in the future.

**Compensated Absences**

In recognition of services to the District, a severance payment will be made upon termination to eligible employees according to their respective employment contracts or past District practice as follows:

**Teachers and Administrative Staff**

Employees eligible for non-disability retirement through the Michigan Public Schools Employee Retirement System and having at least fifteen (15) years of consecutive service to the Board shall be paid a severance payment on the following schedule:

After fifteen (15) years of service, five (5) days' salary plus fifteen percent (15%) of the bargaining unit member's unused sick leave.

After twenty (20) years of service, ten (10) days' salary plus fifteen percent (15%) of the bargaining unit member's unused sick leave.

After twenty-five (25) years of service, fifteen (15) days' salary plus fifteen percent (15%) of the bargaining unit member's unused sick leave.

**Support Staff**

Employees completing ten (10) years of service to the District and reaching age fifty (50) or above shall be paid a severance payment on the following schedule:

After ten (10) years of service, one (1) week salary plus fifteen percent (15%) of the bargaining unit member's unused sick leave.

After fifteen (15) years of service, two (2) weeks salary plus fifteen percent (15%) of the bargaining unit member's unused sick leave.



Fulton Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE F: LONG-TERM DEBT - CONTINUED**

**Support Staff - continued**

After twenty (20) years of service, three (3) weeks salary plus fifteen percent (15%) of the bargaining unit member's unused sick leave.

After twenty-five (25) years of service, four (4) weeks salary plus fifteen percent (15%) of the bargaining unit member's unused sick leave.

Under GASB Statement No. 16 requirements, the District has elected to implement the "vesting" method of calculating the compensated absences liability. The amounts accumulated for all employees currently vested are calculated along with an amount for other employees who currently are not vested but are probable to vest in future years. The sick leave amounts for employees who currently are not vested are calculated by using total unused sick leave amounts at June 30, 2008, for all nonvested employees. The terminal leave amounts for employees who currently are not vested are calculated by taking the sum of nonvested employees' salaries for the year ended June 30, 2008, and multiplying it by the applicable years of service percentage. Both of these amounts are multiplied by a historical termination percentage. This percentage is based on an estimate of the percentage of employees who have terminated employment fully vested in the past five (5) years.

A summary of the calculated amounts of accrued compensated absences and related payroll taxes as of June 30, 2008, which has been recorded in the District-wide financial statements, is as follows:

	<u>Vested Employees</u>	<u>Nonvested Employees</u>	<u>Total</u>
Compensated absences	\$ 197,871	\$ 46,505	\$ 244,376
Payroll taxes	<u>15,137</u>	<u>2,531</u>	<u>17,668</u>
	<u>\$ 213,008</u>	<u>\$ 49,036</u>	<u>\$ 262,044</u>

**NOTE G: EMPLOYEE RETIREMENT SYSTEM**

All of the District's employees, except students, are eligible to participate in the State wide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing, State wide public employee retirement system. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. The report for the fiscal year-end September 30, 2007, the last year available, may be obtained by contacting the State of Michigan Department of Management and Budget.

The payroll for employees covered by the MPERS for the year ended June 30, 2008, was \$4,896,832 of which \$3,712,361 was for members who have elected the MIP option; the District's total payroll was \$5,088,432.

Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment Plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. For a limited period ended January 1, 1993, an active Basic Plan member may have enrolled in MIP by repaying the contributions and interest that would have been made had MIP enrollment occurred initially prior to January 1, 1990. Employees first hired on or after January 1, 1990, will automatically be included in MIP.

Members in MIP may retire at any age after attaining thirty years of credited service, or at age sixty while still working with a minimum total of five (5) years of credited service, with credited service in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the member's final average compensation multiplied by the total number of years of credited service.

Fulton Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE G: EMPLOYEE RETIREMENT SYSTEM - CONTINUED**

Employees who did not elect the MIP option fall under the MPSERS Basic Plan and may retire after attaining age sixty with ten (10) or more years of credited service; or attaining age fifty-five with thirty or more years of credited service; or attaining age fifty-five while still working with at least fifteen (15) but fewer than thirty years of credited service, and performed service credit in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five (5) years) multiplied by the total years to the nearest tenth of a year of credited service.

The MPSERS also provides death and disability benefits and health and medical, dental, vision and hearing insurance coverage. Benefits are established by state statute.

Employees who selected MIP on or before December 31, 1989, contributed 4% from January 1, 1987 to December 31, 1989 and 3.9% thereafter. Employees first hired on or after January 1, 1990, are required to contribute based on a graduated rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

For the period of July 1, 2007 to September 30, 2007, the District was required by State statute to contribute 17.74% of covered compensation for all wages to the Plan. For the period of October 1, 2007 to June 30, 2008 the District is required by State statute to contribute 16.72% of covered compensation for all wages to the Plan. The total amount contributed to the Plan for the year ended June 30, 2008, and the previous two (2) years is as follows:

<u>June 30,</u>	<u>MIP</u> <u>Contributions</u>	<u>District</u> <u>Contributions</u>	<u>Total</u> <u>Contributions</u>
2008	\$ 143,243	\$ 828,651	\$ 971,894
2007	134,766	839,105	973,871
2006	129,315	779,139	908,454

The following represents contributions as a percentage of the applicable covered payroll for the current and preceding two (2) years:

<u>June 30,</u>	<u>MIP</u> <u>Contributions</u>	<u>District</u> <u>Contributions</u>
2008	4.0 %	17.0 %
2007	4.0	17.5
2006	4.0	16.0

**NOTE H: FUND BALANCE RESERVES**

Reserved fund balance is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use.

The following are the various fund balance reserves as of June 30, 2008:

General Fund	
Inventories	\$ <u>4,384</u>
Nonmajor Governmental Funds	
Inventories	\$ 3,187
Debt Service	1,248
Scholarships	<u>28,421</u>
	\$ <u>32,856</u>

Fulton Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE I: RISK MANAGEMENT**

The District participates in a pool, the MASH-SEG Property and Casualty Pool, with other school districts for property, liability, in-land marine, crime, employee dishonesty, and errors and omissions. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self insurance pool. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The District has not been informed of any special assessments being required.

The District is exposed to risks of loss related to the District's workers' compensation for which the District carries commercial insurance.

**NOTE J: SPECIAL EDUCATION UNDERFUNDING SETTLEMENT**

Prior to the current year the Durant vs. State of Michigan case was settled and the State was required to reimburse each plaintiff and nonplaintiff District an agreed upon amount for past underfunding of special education. Fulton Schools, a nonplaintiff District, was awarded \$149,274 in the settlement. The funds are being paid as follows:

- a. One-half is being paid over the next ten (10) years, which began November 15, 1998. The restrictions on use of these funds are detailed within State School Aid Act, Section 11F(6). These funds are recorded within the General Fund as categorical State Aid. At the end of the current year all these funds had been expended.
- b. One-half is being paid over the next fifteen (15) years, which began May 15, 1999. The District borrowed this portion of the settlement amount through the Michigan Municipal Bond Authority on November 15, 1998. These funds were recorded as bond proceeds in the Capital Projects Fund. The bond proceeds may be used for any purpose specified in Section 1351 (a) of the Revised School Code. The debt service payments for these bonds are to be made through an annual legislative appropriation. If the State of Michigan legislature fails to make the annual appropriation the District is under no obligation for the debt payments for that year. The District has pledged the annual State payments to the Michigan Municipal Bond Authority for payment of debt service.

**NOTE K: SINKING FUND ACTIVITY**

The Capital Projects Fund of the District includes the capital projects activities funded by local millage for a sinking fund (the Sinking Fund Capital Projects Fund) and other miscellaneous local revenues in those applicable funds. For the expenditures recorded within the Capital Projects Sinking Fund, the District has complied with the applicable provisions of Section 1212 (1) of the Revised School Code and the Michigan Department of Treasury Letter No. 01-95.

The following is a summary of the revenue and expenditures in the Capital Projects Fund from the inception of the sinking fund millage in the current year. These amounts relate to cumulative project-to-date revenues/expenditures through the period ended June 30, 2008. The fund had a beginning fund balance at July 1, 2007 of \$8,747.

	Capital Projects Fund
Revenues and other financing sources	\$ 595,087
Expenditures	\$ 345,944

Fulton Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE L: CONTRACTUAL COMMITMENTS**

The District has entered into various contracts related to ongoing repairs and maintenance that were not completed at June 30, 2008. The contractual commitments outstanding at June 30, 2008 totaled \$358,928. The District plans to cover these commitments with existing fund equity and future sinking fund millage.

**NOTE M: EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

Michigan Public Act 621 of 1978, Section 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amount appropriated.

The District's budgeted expenditures in the General Fund have been adopted at the functional classification level.

During the year ended June 30, 2008, the District incurred expenditures in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
Transfers to other funds	\$ 197,290	\$ 214,539	\$ 17,249

**NOTE N: RESTRICTED NET ASSETS**

Restrictions of net assets shown in the government-wide financial statements indicate that restrictions imposed by some other outside source which precludes their use for unrestricted purposes. The following is the net asset restriction as of June 30, 2008:

PRIMARY GOVERNMENT	
Governmental Activities	
Sinking Fund Activities	\$ <u>393,810</u>

## **REQUIRED SUPPLEMENTARY INFORMATION**

Fulton Schools

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Local sources	\$ 514,500	\$ 620,140	\$ 620,846	\$ 706
State sources	6,939,213	7,296,343	7,315,592	19,249
Federal sources	195,500	287,262	299,214	11,952
<b>TOTAL REVENUES</b>	<b>7,649,213</b>	<b>8,203,745</b>	<b>8,235,652</b>	<b>31,907</b>
<b>EXPENDITURES</b>				
<b>INSTRUCTION</b>				
Basic programs	3,723,257	3,864,425	3,853,717	10,708
Added needs	736,967	757,761	752,855	4,906
Adult and continuing education	741,302	886,610	881,191	5,419
<b>TOTAL INSTRUCTION</b>	<b>5,201,526</b>	<b>5,508,796</b>	<b>5,487,763</b>	<b>21,033</b>
<b>SUPPORTING SERVICES</b>				
Student services	188,698	192,765	187,689	5,096
Instructional staff	157,965	167,765	164,011	3,754
General administration	331,611	327,590	322,993	4,597
School administration	505,887	495,190	494,837	353
Other business services	40,350	32,806	32,572	234
Operations and maintenance	691,282	761,610	752,844	8,766
Transportation	615,652	672,700	649,839	22,861
<b>TOTAL SUPPORTING SERVICES</b>	<b>2,531,445</b>	<b>2,650,426</b>	<b>2,604,765</b>	<b>45,661</b>
<b>COMMUNITY SERVICES</b>	<b>207,830</b>	<b>226,130</b>	<b>217,344</b>	<b>8,786</b>
<b>DEBT SERVICE</b>				
Principal	29,110	29,115	29,112	3
Interest	11,056	11,060	11,054	6
<b>TOTAL DEBT SERVICE</b>	<b>40,166</b>	<b>40,175</b>	<b>40,166</b>	<b>9</b>
<b>TOTAL EXPENDITURES</b>	<b>7,980,967</b>	<b>8,425,527</b>	<b>8,350,038</b>	<b>75,489</b>
<b>EXCESS OF REVENUES (UNDER) EXPENDITURES</b>	<b>(331,754)</b>	<b>(221,782)</b>	<b>(114,386)</b>	<b>107,396</b>

Fulton Schools

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
OTHER FINANCING SOURCES (USES)				
County special education allocation	\$ 320,000	\$ 320,000	\$ 343,453	\$ 23,453
Payments to other districts	(178,975)	(168,408)	(166,923)	1,485
Transfers from other funds	-	18,525	18,524	(1)
Transfers to other funds	(193,600)	(197,290)	(214,539)	(17,249)
TOTAL OTHER FINANCING SOURCES (USES)	(52,575)	(27,173)	(19,485)	7,688
CHANGE IN FUND BALANCE	(384,329)	(248,955)	(133,871)	115,084
Fund balance, beginning of year	2,312,585	2,312,585	2,312,585	-0-
Fund balance, end of year	<u>\$ 1,928,256</u>	<u>\$ 2,063,630</u>	<u>\$ 2,178,714</u>	<u>\$ 115,084</u>

## OTHER SUPPLEMENTARY INFORMATION



Fulton Schools  
Nonmajor Governmental Funds  
COMBINING BALANCE SHEET  
June 30, 2008

	<u>Special Revenue Funds</u>		<u>Debt Service Fund</u>
	<u>Food Service</u>	<u>Athletics</u>	<u>1992 Debt</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 5,348	\$ 3,535	\$ -
Investments	-	-	-
Due from other funds	484	-	1,248
Due from other governmental units	5,219	-	-
Inventories	<u>3,187</u>	<u>-</u>	<u>-</u>
<b>TOTAL ASSETS</b>	<u>\$ 14,238</u>	<u>\$ 3,535</u>	<u>\$ 1,248</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 10,281	\$ -	\$ -
<b>FUND BALANCES</b>			
Reserved for			
Inventories	3,187	-	-
Debt service	-	-	1,248
Scholarships	-	-	-
Unreserved			
Undesignated, reported in			
Special revenue funds	<u>770</u>	<u>3,535</u>	<u>-</u>
<b>TOTAL FUND BALANCES</b>	<u>3,957</u>	<u>3,535</u>	<u>1,248</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 14,238</u>	<u>\$ 3,535</u>	<u>\$ 1,248</u>

Permanent Fund Athol Gamble Memorial Fund	Total
\$ 24,849	\$ 33,732
3,572	3,572
-	1,732
-	5,219
-	3,187
<u>\$ 28,421</u>	<u>\$ 47,442</u>

\$ -	\$ 10,281
------	-----------

-	3,187
-	1,248
28,421	28,421
-	<u>4,305</u>
<u>28,421</u>	<u>37,161</u>
<u>\$ 28,421</u>	<u>\$ 47,442</u>

Fulton Schools

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES

Year Ended June 30, 2008

	Special Revenue Funds		Debt Service Fund
	Food Service	Athletics	1992 Debt
REVENUES			
Local sources	\$ 158,954	\$ 55,357	\$ 2,237
State sources	16,722	-	-
Federal sources	156,381	-	-
<b>TOTAL REVENUES</b>	<b>332,057</b>	<b>55,357</b>	<b>2,237</b>
EXPENDITURES			
Current			
Food service	344,228	-	-
Athletics	-	264,928	-
Miscellaneous	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>344,228</b>	<b>264,928</b>	<b>-0-</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(12,171)</b>	<b>(209,571)</b>	<b>2,237</b>
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	3,000	211,539	-
Transfers to other funds	-	-	(18,524)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>3,000</b>	<b>211,539</b>	<b>(18,524)</b>
<b>CHANGE IN FUND BALANCES</b>	<b>(9,171)</b>	<b>1,968</b>	<b>(16,287)</b>
Fund balances, beginning of year	13,128	1,567	17,535
Fund balances, end of year	<u>\$ 3,957</u>	<u>\$ 3,535</u>	<u>\$ 1,248</u>

Permanent Fund		
Athol Gamble Memorial Fund		Total
\$ 999	\$ 217,547	
-	16,722	
-	156,381	
999	390,650	
-	344,228	
-	264,928	
341	341	
341	609,497	
658	(218,847)	
-	214,539	
-	(18,524)	
-0-	196,015	
658	(22,832)	
27,763	59,993	
\$ 28,421	\$ 37,161	

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Education  
Fulton Schools  
Middleton, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fulton Schools as of and for the year ended June 30, 2008, which collectively comprise Fulton Schools' basic financial statements and have issued our report thereon dated October 3, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Fulton Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of Fulton Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Fulton Schools' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

2007-1 PREPARATION OF FINANCIAL STATEMENTS IN ACCORDANCE WITH GAAP

Condition: It has historically been common for many governments to rely on the independent auditors to assist in the preparation of the government-wide and fund financial statements, as well as the related notes to the financial statements, as part of its external financial reporting process. As a result, a government's ability to prepare financial statements in accordance with GAAP has typically been based, in part, on its reliance on the independent auditors. By definition, independent auditors cannot be part of the government's internal controls. This issue was noted and reported in our audit comments in the prior audit.

The condition noted in the preceding paragraph exists at Fulton Schools and was an issue that was noted and reported in our audit comments last year. The cause for this condition is simply because it is more cost effective to outsource the preparation of its annual financial statements to the independent auditors than to incur the time and expense of having the employees and/or management obtain the necessary training and expertise required to perform this task internally.

## 2007-1 PREPARATION OF FINANCIAL STATEMENTS IN ACCORDANCE WITH GAAP - CONTINUED

**Criteria:** Governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). Responsibility for the financial statements of the District rests with the District's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal accounting records), and (2) reporting government-wide and fund financial statements, including the related note disclosures (i.e., external financial reporting).

**Effect:** As a result of this condition, the employees and/or management do not possess the qualifications necessary to prepare the District's annual financial statements and notes to the financial statements in accordance with GAAP. The District relies, in part, on the independent auditors for assistance with the preparation of annual financial statements and related notes to the financial statements in accordance with GAAP.

**Recommendation:** We recommend the District consider obtaining proper training for the appropriate members of the District's administration to assure that they are able to fully understand the requirements of preparing GAAP financial statements. This understanding is essential for the District's administration to be able to accept responsibility for the amounts and disclosures included in the District's financial statements.

**Corrective Action Response:** Management of the District is aware of this deficiency and will continue to look for opportunities to increase our understanding of the requirements of preparing GAAP financial statements. However, at this time we believe it is not cost beneficial in our situation to develop this expertise. We will continue to use our external auditors for this technical assistance. We would expect this situation to be ongoing in future years.

## 2008-1 MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS

**Condition:** Material journal entries for the adjustment of loan proceeds, accounts payable, prepaids, and interfund balances were proposed by the auditors. These misstatements were not detected by the District's internal control over financial reporting.

**Criteria:** Statement on Auditing Standards No. 112 (SAS 112), *Communicating Internal Control Related Matters Identified in an Audit*, emphasizes that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position and results of operations, including the notes to financial statements, in conformity with U.S. generally accepted accounting principles. The auditor cannot be a part of internal controls.

**Effect:** Through the identification of material journal entries that were not otherwise identified by management, the auditors are effectively part of the District's internal controls.

**Recommendation:** We recommend that the District take steps to ensure that material journal entries are not necessary at the time future audit analysis is performed.

**Corrective Action Response:** Management of the District is currently reviewing procedures related to identification and correction of potential errors in the financial statements.

## 2008-2 BANK RECONCILIATIONS

**Condition:** During our analysis of the District's bank accounts, we noted that the Athletic Funds cash account did not reconcile to the general ledger. Bills are paid through the computerized system and a checkbook, these processes are performed by two different individuals and this account was not balanced to the general ledger on a monthly basis.

**Criteria:** All bank accounts of the District should be reconciled to the general ledger on a monthly basis.

**Effect:** The District has not maintained adequate controls over this account.

**Recommendation:** We recommend that all checks are processed on the computerized system and that the bank account be reconciled to the general ledger on a monthly basis.

**Corrective Action Response:** The District has evaluated the current bank reconciliation procedures for this account and is implementing a process to assure this account is reconciled in a timely manner.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe that the significant deficiencies described above as 2007-1 and 2008-1 are material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Fulton Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which are described below.

#### 2008-3 UNFAVORABLE BUDGET VARIANCES

**Condition:** During our review of the District's compliance with the budgeting act, we noted that expenditures had exceeded the amounts appropriated for a certain activity within the General Fund.

**Criteria:** The Uniform Budgeting and Accounting Act requires the District to amend the original adopted budget "as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined". The Act also states that "an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body".

**Effect:** The District adopted the budget for the General Fund at the functional and the budget for Special Revenue funds at the total expenditure level. Having unfavorable budget variances as described above, the District is not in compliance with Public Act 621 of 1978, as amended.

**Recommendation:** We recommend the District continue to monitor expenditures against adopted budgets in all applicable funds and make appropriate budget amendments as needed.

**Corrective Action Response:** Management of the District is currently reviewing procedures related to budgetary compliance in accordance with State law.

Fulton Schools' responses to the findings identified in our audit are described above. We did not audit Fulton Schools' responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Education of Fulton Schools, others within the District, the pass-through agencies, and the Federal award agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

October 3, 2008